

Message Text

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ACTION EB-07

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC 6051

C O N F I D E N T I A L LIMA 5962

EO 11652: GDS

TAGS: ENRG, EINV, PE

SUBJ: PETROPERU EXPRESSES INTEREST IN REACHING
AGREEMENT WITH OCCIDENTAL ON TARIFF THROUGH-
PUT PROPOSAL

REF: LIMA 5070

1. DAVID MARTIN, PRESIDENT OF OCCIDENTAL PERU, AND GERHART JANSEN, LOCAL OXY MANAGER, CALLED ON THE AMBASSADOR ON JULY 22 TO INFORM HIM THAT PETROPERU AHS MADE A WRITTEN COUNTEROFFER TO OXY REGARDING A TARIFF COST TO OXY FOR USE OF PETROPERU'S MAIN PIPELINE. OXY OFFICIALS SAID THAT PETROPERU HAS GREATLY REDUCED ITS ORIGINAL FIGURE, AND OXY EXPECTS AN AGREEMENT TO BE REACHED WITHIN THE \$1-\$1.50 RANGE PER BBL. WITHIN THE NEXT MONTH. MARTIN NOTED THAT PETROPERU SEEMS TO BE UNDER CONSIDERABLE PRESSURE TO REACH AN ACCORD, AND THAT TIME IS CLOSING IN ON PETROPERU.

2. MARTIN, SAID OXY WILL DULY CONSIDER PETROPERU'S REQUEST AND WILL RESPOND AFTER CAREFUL DELIBERATION OF THE FINANCIAL COSTS INVOLVED. MARTIN NOTED THAT OXY IS "IN NO HURRY" TO REACH AN AGREEMENT. MARTIN ALSO SAID THAT THE MINISTRY OF ENERGY AND MINES HAS TAKEN A DIRECT HAND IN PUSHING PETROPERU TO MAKE ITS COUNTEROFFER WHICH MARTIN SAID WAS COMPLETELY REASONABLE.

3. MARTIN EXPLAINED THAT OXY HAS NOTED THAT PETROPERU'S
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MANAGEMENT IS NOW TAKING INTO ACCOUNT THE FACT THAT

PERU WILL NOT BE A NET OIL EXPORTER IN THE NEAR FUTURE, THAT THE PRINCIPAL PIPELINE WILL NOT BE COMPLETED UNTIL 1977, AND THAT PETROPERU IS DEPENDENT ON OXY'S OIL TO MAKE THE OVERALL PROJECT VIABLE. MARTIN REITERATED PREVIOUS FIGURES THAT OXY HAS 200 MILLION BBLS. OF PROVEN RESERVES AND THAT PETROPERU MIGHT HAVE 50-60 MILLION BBLS. TOGETHER, THESE RESERVES WOULD JUST MAKE THE PROJECT FEASIBLE.

4. MARTIN SAID THAT ONCE A TARIFF AGREEMENT IS REACHED, OXY WILL BEGIN TO CONSIDER THE FINANCING PACKAGE FOR ITS SPUR LINE. HE SAID OXY HAS CHANGED THE SPECIFICATIONS FOR THE SPUR, DOW TO A 16" LINE FORM 20". THE SPUR, AT PEAK PRODUCTION, WILL BE ABLE TO HANDLE 80,000 B/D. OXY HAS ALSO RECALCULATED ITS TOTAL INVESTMENT PROGRAM IN PERU AND DOES NOT PLAN TO SPEND MORE THAT THE \$340 MILLION MENTIONED BY HAMMER EARLIER THIS YEAR. MARTIN SAID THE OVERALL COST OF THE SPUR WILL NOW BE UNDER \$100 MILLION AND THAT THIS COST WILL COME OUT OF THE ORIGINAL \$240 MILLION PROGRAMMED FOR FURTHER OIL WELL DEVELOPMENT AND EXPLORATION. OXY PLANS TO DISCUSS FINANCING WITH EXIM AT AN EARLY DATE AFTER THE TARIFF ISSUE IS SETTLED. MARTIN WAS OPTIMISTIC ABOUT OXY'S FINDING THE FINANCING AND NOTED THAT IF OXY COULD PLEDGE SOME OF ITS OIL FOR SHIPMENT TO THE U.S., THIS WOULD IMPROVE CHANCES OF U.S. BANKS SUPPORTING A FINANCING PACKAGE FOR THE SPUR.

5. COMMENT: MARTIN IMPLIED, AND WE ALSO SURMISE, THAT THE IMPORTANCE OF A RAPID OXY-PETROPERU TARIFF AGREEMENT IS APPARENT TO TOP-LEVEL PERUVIAN POLICYMAKERS WHO NOW REALIZE THEIR DEPENDENCE ON OXY TO SALVAGE THE PIPELINE PROJECT. OXY, ON THE OTHER HAND, HAS ALSO CONCLUDED THAT IT MUST OBTAIN A CLEAR RESOLUTION OF THE TARIFF ISSUE BEFORE SEEKING BANK FINANCING FOR THE SPUR, AND BEFORE PUTTING INTO PERU LARGE ADDITIONAL SUMS FOR DEVELOPMENT AND EXPLORATION. IT IS THEREFORE MOVING WITH RELATIVE CAUTION IN WHAT IS ESSENTIALLY A SUBTLE POKER GAME WITH THE GOP. WHILE THE "GAME PLAN" IS ALWAYS SUBJECT TO REVISION IN "REVOLUTIONARY PERU", WE CONCLUDE THAT OXY'S POSITION IS SUBSTANTIALLY BRIGHTER THAN IT WAS A FEW MONTHS AGO AND, UNLESS THE

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SIGNALS CHANGE ABRUPTLY, OXY MAY BE ABLE TO MOVE FORWARD WITH THE DEVELOPMENT OF ITS FIELDS.

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Message Attributes

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Margaret P. Grafeld
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